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2004 1st Quarter Corporate Reporting

 **STC**
The Bus Company

2004 1st Quarter Corporate Reporting

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Management Discussion and Analysis

In this MD&A, STC Management will discuss the results of its First Quarter operations in 2004, in context of both the corresponding quarter in the previous year and, in general terms, in relation to the anticipated financial position of the company over the full year.

The MD&A will also review any emerging corporate issues which arose in the quarter and will have a lasting impact on the corporation's fiscal position.

Passenger Service:

In the first quarter of 2004, STC coaches traveled 782,000 miles, serving 275 Saskatchewan communities.

Revenues for passenger operations in the quarter were \$1,568,000, up slightly from the \$1,527,000 in revenues realized by the company in the first quarter of 2003. Expenses associated with operating passenger services were \$1,976,000, again up slightly from the 2003 figure of \$1,943,000.

Operating losses of passenger services in the quarter were \$408,000, a slight decrease from the \$416,000 in operating loss experienced by passenger services in the first quarter of 2003.

Actual revenues from passenger service were very close to the projected revenues for the quarter.

Express Service:

Through its network of 197 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the first quarter of 2004, revenues from express operations were \$1,240,000, down slightly from the revenues of \$1,280,000 realized in the first quarter of 2003. Express operating expenses during the quarter amounted to \$907,000, up slightly from the \$890,000 in expenses for the same period the previous year.

Overall, profits for freight operations in the first quarter amounted to \$333,000, compared to a profit of \$390,000 for the first quarter of 2003.

Revenues for freight operations are below expectations for the quarter. This is most likely due to continued uncertainty in the farming economy, as this aspect of STC's business is very heavily driven by the rural economy.

STC's express service tends to be somewhat seasonal, due to a lack of activity in the farming industry at this time of year. It is anticipated express revenues will be up in each of the remaining quarters.

Maintenance Services:

STC operates a garage in Saskatoon for major bus servicing, and one in Regina for minor bus servicing. In addition, the company uses its facilities to do maintenance work for other bus companies, as well as to store vehicles for other companies.

The expenses for maintenance services in 2004 amounted to \$630,000, as compared to \$577,000 for the same three-month period in 2003.

Financial Services:

Overall, STC's revenues for the first quarter of 2004 amounted to \$2,941,000, compared to \$2,959,000 for the first quarter of 2003, while expenses were \$4,581,000, compared to \$4,551,000 the previous year. The company's loss, before grants, for the quarter was \$1,640,000, compared to \$1,592,000 for the first quarter of 2003.

STC has been approved for an operating grant of \$3.4 million from its holding company, the Crown Investments Corporation of Saskatchewan. Current projections for the year, based on the first quarter, indicate that the company will require that amount of grant funding. The projected operating loss for the year is \$3.3 million, compared to \$2.8 million in 2003.

In the first quarter, STC drew down \$1.5 million of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of the quarter, the Government's equity in STC stood at \$8,510,000, compared to \$10,029,000 at the same time last year.

Other Issues:

There were two issues of significance that arose during the quarter which will impact the company's finances for the remainder of the year.

On December 31, 2003, the company's collective agreement with the Amalgamated Transit Union Local 1374 expired. Negotiations on a new collective agreement were begun during the quarter and are ongoing. The financial impact of these negotiations is not known at this time.

During the quarter, STC received authority from the Highway Traffic Board and the Crown Management Board for a 3.2 per cent passenger fare increase, effective April 1, 2004. Providing ridership figures stay true to the company's estimate for 2004, this should mean an additional \$152,000 in revenues for the remaining three quarters.

One other issue of importance to the Company should be mentioned in this MD&A. The Regina garage facility had been subjected to a structural assessment in 2003 as a result of an insurance requirement during the 2002 insurance renewal process. The result of that study was a recommendation that STC have certain structural repairs completed as soon as possible. Aside from the structural concerns, this created an insurance risk where the available coverage was significantly short of replacement cost.

The Company has now completed the repairs to the facility and has subsequently passed another insurance inspection. In addition, STC's insurance broker has now been able to secure adequate insurance coverage to provide for functional replacement cost. Although the facility will continue to be subjected to periodic studies due to its age, there is currently no immediate or significant risk to the Company.

Saskatchewan Transportation Company

Statement of Financial Position

(unaudited - thousands of dollars)

	As at March 31, 2004	As at December 31, 2003
Assets		
Current		
Cash	\$ 1,029	\$ 882
Accounts receivable	1,030	1,315
Inventories	285	322
Prepaid expenses	413	130
	2,757	2,649
Property, plant and equipment	15,209	15,629
	\$ 17,966	\$ 18,278

Liabilities and Province's Equity

Current		
Demand operating loan	\$ -	\$ 300
Accounts payable and accrued liabilities	2,131	2,003
	2,131	2,303
Deferred capital grant	7,325	7,573
Province of Saskatchewan's Equity		
Retained earnings	8,510	8,402
	\$ 17,966	\$ 18,278

Saskatchewan Transportation Company
Statement of Operations and Retained Earnings
(unaudited - thousands of dollars)

	Three months ended March 31	
	2004	2003
Revenue		
Express services	\$ 1,240	\$ 1,280
Passenger services	1,568	1,527
Other	134	152
Loss on disposal of property, plant and equipment	(1)	-
	<u>2,941</u>	<u>2,959</u>
Expenses		
Operating	3,513	3,410
Administration	639	708
Amortization	429	433
	<u>4,581</u>	<u>4,551</u>
Loss before the following	(1,640)	(1,592)
Operating Grant	1,500	-
Capital Grant	248	209
Net income (loss)	<u>108</u>	<u>(1,383)</u>
Retained earnings, beginning of period	8,402	10,482
Retained earnings, end of period	<u>\$ 8,510</u>	<u>\$ 9,099</u>

Saskatchewan Transportation Company**Statement of Cash Flows**

(unaudited - thousands of dollars)

	Three months ended March 31	
	2004	2003
Operating Activities:		
Net income (loss)	\$ 108	\$ (1,383)
Items not involving cash:		
Amortization	429	433
Loss on disposal of property, plant and equipment	1	-
Recognition of capital grant	(248)	(209)
Net change in non-cash working capital	167	53
Cash provided by (used in) operating activities	457	(1,106)
Investing Activities		
Additions to property, plant and equipment	(19)	(100)
Proceeds on disposal of property, plant and equipment	9	-
Cash used in investing activities	(10)	(100)
Financing Activities		
Repayment of demand operating loan	(300)	-
Capital grant received	-	-
Cash used in financing activities	(300)	-
Increase (Decrease) in cash	147	(1,206)
Cash, beginning of period	882	2,286
Cash, end of period	\$ 1,029	\$ 1,080

Saskatchewan Transportation Company

Notes to Financial Statements

(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2003.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2003.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.

